



7700 Mineral Point Road, Madison, WI 53717 • PO Box 2238, Madison, WI 53701 • P 608.833.5550 • F 608.829.5590

February 17, 2011

VIA EMAIL

Ms. Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Ave. NW.,
Washington, DC 20551
Docket No. R-1404 and RIN No. 7100-AD63
regs.comments@federalreserve.gov

RE: Debit Card Interchange Fees

Dear Ms. Johnson:

Based in Madison, Wisconsin, since 1981, Bankers' Bank serves community-minded financial institutions of all sizes across the Midwest through support offices in the Chicago, Springfield, Ill., Des Moines and Indianapolis areas. As a banking institution that works with and supports financial institutions we are extremely concerned about the Federal Reserve's proposed regulation to implement section 1075 (Durbin Amendment) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act).

We understand the Federal Reserve's mandate to implement the amendment. We believe that the interpretation that is proposed is too narrow and will place undue burden on financial institutions and their customers. We also think the amendment itself is misguided and would support its repeal over implementation. Although many aspects of the amendment cause serious concern we will focus this comment on the interchange portion of the amendment.

No matter what many of the supporters of the amendment are saying there is much more involved in debit processing than just transmitting a transaction from point A to point B. From network memberships, to producing cards, to authorization systems integrated with core processing systems, to systems for managing risk, to providing customer service, to *guaranteeing payment of transactions to merchants*, and more, financial institutions have program costs that cannot be met with either of the proposed fee structures. If either of the proposed structures are implemented the costs do not go away, just the ability to use a proven and currently market driven source to pay for them. Consumers, small businesses, and the communities in which the financial institutions are located will likely be negatively impacted by this restructure of interchange fees.

The \$10 billion exemption which is presented as the solution for adding back balance will in fact not aid financial institutions for two main reasons. First, there is no motivation for networks to develop a multi-tier system to support the exemption unless they can find a new source from those exempted to pay for the substantial costs of restructure. If they do implement a multi-tier system and add additional fees then the cost structure becomes even more unbalanced to the financial institution. I

1.800.338.5550

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217.698.6022

would also argue that long-term a multi-tier structure is unsustainable in the market. Secondly, there is no motivation for merchants to accept higher interchange on exempt financial institution cards. I am concerned a merchant will not accept a card from an exempted institution to save on fees. The exemption actually encourages merchants to promote the use of debit cards from the largest financial institutions only. Bottom line to the exemption is that the *market* will drive the exemption into extinction even if it is initially implemented by some networks, which we see as highly doubtful.

The negative impact of the Durbin Amendment is significant to community-minded financial institutions and their ability to offer debit cards, a must have product for consumers and businesses. We ask you to reconsider your proposal. Recognize the untenable nature of the current proposal and the negative impact to the market as a whole. The biggest losers with this proposal are the consumer *and* small business clients who have become dependent on the convenience and technology provided by the use of debit cards. The products and services they receive today will drastically change if either of the current proposals on interchange are implemented. Financial institutions will have to make changes to their debit card programs not by choice but by virtue of necessity.

Thank you for the opportunity to comment and your consideration of our position.

Sincerely,

Barbara J Gross
1st Vice President